

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DODE-00 PM-09 H-02 L-03 PA-03 PRS-01 USIA-12 AGR-20

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FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC 4227

INFO AMEMBASSY BRASILIA

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E. O. 11652: N/ A

TAGS: ECON, UY

SUBJECT: URUGUAYAN FIVE- YEAR DEVELOPMENT PLAN

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1. SUMMARY. THE RECENTLY- APPROVED FIVE- YEAR DEVELOPMENT PLAN OF THE GOU PROJECTS A GRADUAL SHIFT OF ECONOMIC POLICY AWAY FROM GOVERNMENT INTERVENTION AND TOWARD OPERATION ON THE BASIS OF MARKET FORCES. THE PLAN IDENTIFIES THE LIMITED IMPORT CAPACITY OF THE ECONOMY AS THE BASIC BOTTLENECK TO ECONOMIC GROWTH, AND RECOMMENDS PROMOTION OF EXPORTS - THROUGH BOTH REALISTIC EXCHANGE- RATE POLICIES AND HIGH AGRICULTURAL PRICES - AS THE SOLUTION TO URUGUAY' S ECONOMIC PROBLEMS.

2. THE 1973-77 FIVE- YEAR DEVELOPMENT PLAN WAS APPROVED BY THE COUNCIL OF MINISTERS ON APRIL 5. THOUGH PLAN IN ENTIRETY NOT YET AVAILABLE, THIS REPORT SUMMARIZES CONTENT OF VOLUME I (OVERVIEW, STRATEGY, AND SECTORAL TARGETS). ON COPY VOLUME IS BEING POUCHED, TO BE FOLLOWED BY AIRGRAM WITH MORE DETAILED
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ANALYSIS OF PLAN.

3. THE STATEMENT OF THE PROBLEM. THE PLAN DIAGNOSES URUGUAYAN STAGNATION OVER PAST FIFTEEN YEARS AS RESULTING PRIMARILY FROM IMPORT BOTTLENECK. THOUGH THE PROXIMATE CAUSES OF THIS BOTTLENECK ARE GIVEN AS MAINTENANCE OF INTERNAL AGRICULTURAL PRICES AT LOW LEVELS, OVERVALUED EXCHANGE RATES, AND GOVERNMENT CONTROLS, THE PLAN IDENTIFIES A GOU ATTEMPT TO HOLD URBAN WAGES AT EXCESSIVE LEVELS AS THE REAL HEART OF THE PROBLEM. THESE EXCESSIVE WAGE LEVELS HAVE RESULTED BOTH FROM GIVING EXCESSIVE WAGE INCREASES AND FROM ARTIFICIALLY HOLDING DOWN PRICES, AND IT IS ARGUED THAT THE ATTEMPT TO HOLD REAL WAGES TOO HIGH IS THE PRINCIPAL CAUSE OF INFLATION. THE SOLUTION TO THE STAGNATION, THE REPORT CONCLUDES, IS AN "OPENING TO THE EXTERIOR" OF THE ECONOMY. THROUGH THE MAINTENANCE OF REALISTIC EXCHANGE RATES AND ADEQUATE INTERNAL PRICES, AGRICULTURAL EXPORTS WILL BE SUBSTANTIALLY INCREASED. AT THE SAME TIME, THE IMPORT SYSTEM WILL BE LIBERALIZED AND THE INDUSTRIAL SECTOR BROUGHT INTO THE INTERNATIONAL ECONOMY. INDUSTRIAL PRODUCTION WILL GRADUALLY BE SHIFTED FROM THE PAST ORIENTATION TOWARD IMPORT SUBSTITUTION AT ANY COST, TO SPECIALIZATION IN PRODUCTION OF GOODS WHERE HIGH LEVELS OF EFFICIENCY CAN BE ACHIEVED. BY 1977, BOTH EXPORTS AND IMPORTS ARE TO BE TWICE THEIR 1972 LEVELS IN REAL TERMS. THE PUBLIC SECTOR WILL GRADUALLY ALLOW MARKET FORCES TO REPLACE GOVERNMENT FIAT AS AN ALLOCATIVE MECHANISM THROUGHOUT THE ECONOMY. STATE ENTERPRISES WILL BE FORCED TO USE

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6. GLOBAL AND SECTORAL TARGETS. GROSS DOMESTIC PRODUCT IS TARGETED AT A 4 PERCENT ANNUAL GROWTH RATE FOR THE PERIOD, REACHING AN ANNUAL RATE OF 5 PERCENT BY THE END OF THE PERIOD. AGRICULTURAL AND INDUSTRIAL SECTORS ARE TO GROW AT A SLIGHTLY FASTER RATE. UNEMPLOYMENT IS TO FALL FROM THE CURRENT LEVEL OF 10.5 PERCENT TO 6 PERCENT BY 1977.

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7. MISSION COMMENTS. MISSION CONSIDERABLE OVERVIEW AND DIAGNOSIS TO BE EXCELLENT. ANALYSIS FOLLOWS CLOSELY PAST USAID DIAGNOSES OF THE PROBLEM. HOWEVER, WE CONSIDER POLICY SECTION OF PLAN TO BE SOMEWHAT WEAK. TIME FRAME FOR IMPLEMENTATION OF MAJOR REFORMS (SLOWING OF INFLATION, MONETARY ADJUSTMENT, REDUCTION OF STATE INTERVENTION) IS RATHER INDEFINITE, AND IT SEEMS CLEAR THAT MUCH BACKGROUND ANALYSIS REMAINS TO BE DONE BEFORE A CLEAR CONCEPTION OF THE TIMING AND SEQUENCING OF REFORMS CAN EMERGE. IN ADDITION, SOME POLICY RECOMMENDATIONS - MOST IMPORTANT THE ONE THAT AGRICULTURAL PRICES CONTINUE TO BE CONTROLLED - CONFLICT WITH DIAGNOSTIC PORTION OF PROJECT. FINALLY, LIMITED OFFICIAL USE

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SOME IMPORTANT ISSUES, SUCH AS THE PROCESS BY WHICH STATE ENTERPRISES ARE TO BE CONVERTED FROM BADLY- ADMINISTERED, BUREAUCRATIC ORGANIZATIONS INTO EFFICIENT, PROFIT- MAKING CONCERNS, ARE NOT ANALYZED. DESPITE THE ABOVE SHORTCOMINGS, WE VIEW THE PLAN AS A VERY GOOD DOCUMENT. IT PRESENTS A VIEW OF THE NATURE OF THE URUGUAYAN ECONOMIC PROBLEM THAT PLACE THE BLAME FOR THE CURRENT STAGNATION SQUARELY ON INAPPROPRIATE ECONOMIC POLICIES IN THE PAST, AND ARGUES THAT FUTURE GROWTH CAN ONLY OCCUR THROUGH A REORIENTATION OF GOU POLICY. IF THIS VIEW OF THE NATURE OF THE PROBLEM IS GENUINELY ADOPTED BY THE GOU, THEN THE REQUIRED APPROACH TO DEAL WITH IT BECOMES CLEAR. ORTIZ

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